

Message Text

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SUBJECT: FURTHER DEVELOPMENTS RE FINANCIAL GUARANTEES FOR KOREAN
MIDDLE EAST CONSTRUCTION PROJECTS

REF: (A) SEOUL 2868, (B) SEOUL 5128 (NOTAL)

SUMMARY: ACCORDING TO ROKG MINISTRY OF FINANCE SOURCE,
SAUDI ARABIA PLANS TO DESIGNATE LIST OF BANKS WHOSE
GUARANTEES FOR CONSTRUCTION PROJECTS WILL BE ACCEPTED
WITHOUT FURTHER BACKING, UP TO A CEILING OF 20 PERCENT AS
A RATIO TO BANK'S CAPITAL. ROKG EXPECTING KOREA EXCHANGE
BANK (KEB) TO BE INCLUDED. WITH EFFECTIVE CEILING OF
ONLY \$40 MILLION FOR KEB, THE MOST IMPORTANT BENEFIT
WOULD BE THE ENHANCEMENT OF KEB'S INTERNATIONAL STANDING
BY ITS MERE INCLUSION ON THE LIST. HERALDED \$150 MILLION
SYNDICATION FOR THIRD COUNTRY GUARANTEES SIGNED IN
APRIL THIS YEAR, MEANWHILE, HAS YET TO BE UTILIZED AS
KOREAN CONSTRUCTION FIRMS AND BANKS ARE APPARENTLY
FINDING THEY CAN MAKE OTHER ARRANGEMENTS ON MORE
ATTRACTIVE TERMS. END SUMMARY

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1. ACCORDING TO CHUNG IN-YONG, DIRECTOR OF INTERNATIONAL FINANCE BUREAU, ROKG MINISTRY OF FINANCE, SAUDI ARABIA IS PLANNING TO MODIFY ITS POLICY ON BANK GUARANTEES FOR PERFORMANCE AND OTHER BONDS CONNECTED WITH CONSTRUCTION PROJECTS BY DESIGNATING A LIST OF APPROXIMATELY 54 BANKS WHOSE GUARANTEES WILL BE ACCEPTED WITHOUT FURTHER BACKING WITH THE PROVISIO THAT THE RATIO OF GUARANTEES TO THE BANK'S CAPITAL DOES NOT EXCEED 20 PERCENT. THE ROKG ANTICIPATES THAT THE KOREA EXCHANGE BANK (KEB) WILL BE INCLUDED ON THIS SELECT LIST AND CHUNG IS EXPECTING TO FLY TO SAUDI ARABIA SHORTLY FOR DISCUSSIONS ON THE SUBJECT.

2. CHUNG POINTED OUT THAT THE 20 PERCENT RATIO TO CAPITAL CEILING WOULD LIMIT KEB GUARANTEES OF THIS NATURE TO \$40 MILLION, A MODEST SUM IN RELATION TO THE TOTAL REQUIREMENTS OF THE KOREAN OVERSEAS CONSTRUCTION INDUSTRY. THE VALUE OF NEW CONTRACTS IN THE FIRST 9 MONTHS OF 1976 ALONE IS \$2.2 BILLION, THE BULK OF WHICH ARE IN SAUDI ARABIA, AND THE COMBINATION OF PERFORMANCE BID BOND, PERFORMANCE BOND AND ADVANCE PAYMENT GUARANTEES IS TYPICALLY EQUIVALENT TO 30 PERCENT OR SO OF CONTRACT VALUE. THE BIGGEST BENEFIT FOR THE ROKG, IN CHUNG'S VIEW, WOULD BE THE ENHANCEMENT OF KEB'S AND KOREA'S STANDING IN THE INTERNATIONAL FINANCIAL COMMUNITY THAT WOULD RESULT FROM HAVING KEB APPEAR ON A LIST THAT WILL UNDOUBTEDLY INCLUDE THE THE BULK OF THE WORLD'S MOST PRESTIGIOUS BANKS.

3. CHUNG, MEANWHILE, CONFIRMED THAT KOREAN CONSTRUCTION FIRMS HAVE YET TO UTILIZE ANY PORTION OF THE SYNDICATED \$150 MILLION STANDBY ARRANGEMENT FOR THIRD COUNTRY GUARANTEES SIGNED IN HONG KONG APRIL 26, 1976 (SEE REF A AND PREVIOUS). WHILE HE AVOIDED A DIRECT RESPONSE TO EMBOFF'S QUESTION AS TO WHETHER THERE IS ANY LIKELIHOOD THIS PARTICULAR STANDBY ARRANGEMENT WILL EVER BE USED, EMBOFF GAINED THE IMPRESSION THAT CHUNG NOW CONSIDERS IT UNLIKELY. IF NOT UTILIZED THAT ARRANGEMENT WILL EXPIRE IN APRIL 1977. KOREAN CONSTRUCTION FIRMS AND BANKS ARE APPARENTLY FINDING THEY LIMITED OFFICIAL USE

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CAN ARRANGE THIRD COUNTRY GUARANTEES ON MORE ATTRACTIVE TERMS THAN PROVIDED IN THAT INITIAL SYNDICATION PACKAGE. INDICATIVE OF BACKING THEY ARE NOW ABLE TO ATTRACT, THE EX POST SYNDICATION MANAGED BY NATIONAL COMMERCIAL BANK OF SAUDI ARABIA OF A BACKUP FOR THE GUARANTEES INVOLVED IN THE \$945 MILLION JUBAIL PORT PROJECT (SEE REF B) WAS HT
UD IN LONDON OCTOBER 22, WITH PRESS ACCOUNTS REPORTING

THAT A TOTAL OF 37 BANKS PARTICIPATED, INCLUDING 18
FROM THE MIDDLE EAST AND 19 FROM WESTERN EUROPE, THE
U.S. AND JAPAN. PRESS ACCOUNTS MENTION THE BANK OF
AMERICA AND THE CHEMICAL BANK AS CO-LEADERS OF THAT
SYNDICATION.
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